

Arizona Citizens Finance Review Commission

Property Tax

Topic: K. Examine the use of property tax exemptions (particularly possessory interests).

1. Description

More than 10% of the assessed property (after assessment ratios), nearly \$5 billion, in Arizona is exempt. The majority of these properties are government owned, whether federal, state or local. In Maricopa County, government exemptions makeup almost 74% of all exemptions. Other exemptions include religious, non-profit and fraternal organizations and personal exemptions for widows, widowers or disabled. Many properties are unassessed and not even listed as exemptions, such as possessory interests and the Native American land and most of its improvements.

The review of this topic involves an examination of property tax exemptions and therefore has limited scope in reference to eliminating this tax relief.

2. Administration

The administration of exemptions resides predominantly with the County Assessors and involves the verification and review of exemption qualification and status. The addition of new exempt property is also the responsibility of the Assessor, as well as the valuation of existing exempt property.

3. Impact on Existing Revenue Systems

Not applicable

4. Cost

The cost of administering exemptions is primarily involved with the verification and review of organizational and individual applications. Costs are also incurred for the addition of exempt property, such as new government buildings. The valuation process for government properties is minimal as no tax impact removes any need for appeals or an extensive valuation analysis. For Maricopa County, from a personnel perspective, the cost is about 3% of the entire budget.

5. Policy Considerations

A. Equity

Exemptions are applied equitably based upon the current statutes. Arguments could be made that current statutes may not apply exemptions equitably across all taxpayers.

B. Economic Vitality

Government and religious exemptions, the majority of the exempt property, are standard practices in other states. Many states also provide relief for non-profits and special needs individuals including seniors and the disabled.

C. Volatility

Unless new exemptions are enacted, the current exemption structure does not produce volatility as these exempt properties do not produce any property tax revenue.

D. Simplicity

The government exemptions are very straightforward. The individual and organizational exemptions can be somewhat complicated. Verifiable qualifications,

which may include tax returns or statements of organization, must be reviewed so that only those individuals or groups, who truly should qualify, are granted exemptions.

6. Economic Impact

If some exempt government property could be sold to the private sector, the property tax revenue currently exempted, could be added back to the tax rolls lowering the burden on the rest of the tax base. For possessory interest cases, state and municipal governments have begun using this exemption for possibly more than just economic development, but also perhaps as a way for businesses to avoid most property tax liability altogether. For example, the Buttes Resort in Tempe is exempt from taxation. This property sold for more than \$200 million eight years ago. America West, Southwest and Lufthansa German airlines have property listed as possessory interest that is also exempt from taxation. Abuse of the possessory interest statute can lead to a distinct disadvantage to similar businesses currently subject to the full property tax liability. Abuse may extend to Native American and Federal properties as well. Under current tracking systems, most Assessor Office's do not have complete information associated with possessory interests. However, it is acknowledged that the use of Arizona's possessory interest classification is becoming a growing trend.

The table below shows the distribution of exemptions by county. The percent exempt is comparing the exemption amount to the "assessed" full cash value. The "assessed" full cash value is after assessment ratios have been applied.

2003 Abstract Information			
County	Assessed Full Cash Value	Exemptions (Net of SRP)	% Exempt
Apache	\$455,683,643	\$17,806,833	3.9%
Cochise	\$637,496,728	\$50,442,009	7.9%
Coconino	\$1,264,555,620	\$67,941,637	5.4%
Gila	\$391,881,338	\$22,229,085	5.7%
Graham	\$111,059,952	\$9,264,419	8.3%
Greenlee	\$146,751,063	\$4,290,666	2.9%
La Paz	\$216,536,873	\$86,741,584	40.1%
Maricopa	\$31,338,510,032	\$3,259,871,080	10.4%
Mohave	\$1,343,073,820	\$142,464,283	10.6%
Navajo	\$856,911,870	\$204,684,504	23.9%
Pima	\$5,927,304,349	\$693,913,606	11.7%
Pinal	\$1,119,715,800	\$73,836,467	6.6%
Santa Cruz	\$270,991,452	\$24,660,334	9.1%
Yavapai	\$1,676,020,996	\$72,295,807	4.3%
Yuma	\$771,600,322	\$121,110,093	15.7%
Totals	\$46,528,093,858	\$4,851,552,407	10.4%